
Ethnicity Alone Doesn't Predict 401(k) Behavior

By Editor Test *Wed, Nov 25, 2009*

Workers of Asian descent in the U.S. were more likely to be eligible to participate in a 401(k) plan, more likely to participate, and likely to contribute more to their plans than other ethnic groups.

Asian workers in the U.S. have higher 401(k) participation and contribution rates than Whites, and Whites have higher rates than African-Americans or Hispanics, according to a new research brief from the Center for Retirement Research at Boston College.

But ethnicity did not predict 401(k) behavior when people with similar education, wealth, home ownership and retirement plan characteristics were compared, except in one respect: Asians still out-contributed Whites by 1.2 percentage points.

The study, "401(k) Plans and Race," was based on an analysis of the Federal Reserve's Survey of Consumer Finances. The study did not encompass data on savings rates by Asians in their countries of origin, which may have shown that they save at much higher average rates than Americans. In Taiwan, for instance, the household savings rate is about 28% of income.

With no controls for socio-economic factors, the SCF data showed that Asians are more likely to participate in 401(k) plans than Whites, and that Blacks and Hispanics are almost 8% less likely to participate than Whites. Blacks and Hispanics had lower contribution rates—0.5 and 1.0 percentage points, respectively—than Whites. Asians contributed at a rate that was 1.3 percentage points higher.

Asian workers, who represent only 3.9% of the U.S. non-self-employed workforce, were the most likely to be eligible to participate a 401(k) plan, had by far the highest participation rate (83.1% vs. 77.4% for Whites and just under 70% for African-Americans and Hispanics) and contributed more of their salary (7.8%) than the other groups (6.5% for Whites, 5.9% for blacks and 5.5% for Hispanics).

"The good news is that 401(k) participation and contribution decisions do not appear to vary by race/ethnicity . . . For comparably situated individuals, Blacks, Whites, and Hispanics respond in a similar fashion in terms of joining a 401(k) plan and deciding how much to contribute," authors Alicia Munnell and Christopher Sullivan wrote.

"The bad news is that Blacks, Whites, and Hispanics are not similarly situated. Blacks and Hispanics are less likely than Whites to be eligible for an employer-sponsored plan, less likely to have characteristics that would lead them to participate, and less likely to have a taste for saving that would lead to high rates of contributions.

"So, the best way to boost retirement saving among minorities is not by thinking about race or ethnicity, but by focusing plan design and education efforts on those with lower levels of earnings and education," the brief said.

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